

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7910

BILL NUMBER: HB 1866

DATE PREPARED: Mar 1, 2001

BILL AMENDED: Feb 26, 2001

SUBJECT: Case-Mix Reimbursement for Nursing Homes.

FISCAL ANALYST: Alan Gossard

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FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill requires the Office of the Secretary of Family and Social Services (FSSA) to make various amendments to the administrative rule regarding the Medicaid case-mix reimbursement system for nursing homes. The bill requires the Office of Medicaid Policy and Planning (OMPP) to apply to the federal Health Care Financing Administration (HCFA) for a Medicaid state plan amendment to implement certain rule changes. The bill prohibits FSSA from repealing or amending certain administrative rules without statutory authority.

The bill also establishes the Eldercare Trust Fund and provides that the Trust Fund consists of the money deposited from the reimbursement allowance collected under this act. OMPP is to collect a reimbursement allowance from each health facility of \$4.65 for each patient day in the health facility. OMPP shall deposit the money collected in the Eldercare Trust Fund. The bill provides that money in the Trust Fund shall be used to pay the state's share of the costs to supplement and enhance reimbursement to nursing facilities for certain Medicaid services. It also provides that if federal financial participation becomes unavailable to match money from the Trust Fund for the purpose of supplementing and enhancing reimbursement to nursing facilities for Medicaid services, the Office shall cease collection of the reimbursement allowance and refund all of the money remaining in the Trust Fund.

Effective Date: (Amended) Upon passage; July 1, 2001; August 1, 2001.

Explanation of State Expenditures: (Revised) This bill makes several changes to the Medicaid case-mix reimbursement system used for reimbursing nursing home providers in the Medicaid program. A preliminary estimate of the total cost to the state Medicaid program is estimated to be **at least** \$46.61 M initially, and \$29.66 M annually. (However, the effects of interactions between the various components of the bill have not been modeled at this time. Consequently, the total cost estimate is preliminary and may overestimate the total cost if all provisions were implemented.) Total additional expenditures are estimated to be about **at least** \$123.0 M initially with federal reimbursement of \$76.39 M. The estimated cost of each individual

proposal is provided in the following table, along with federal and state shares of the expenditures.

Provision	Total Costs	Federal Share	State Share
Removal of therapies from direct care component; reimburse therapies as a separate component; utilize 34 grouper version 5.12 of the RUG-III classification system.	(\$16.0 M)	(\$9.92 M)	(\$6.08 M)
Increase indirect care overall rate limitation by 10% (to 110%).	11.4 M	7.07 M	4.33 M
Increase administrative overall rate limitation by 5% (to 107%).	Currently Undetermined		
Remove repairs and maintenance from capital and reimburse through the indirect care component.	3.6 M	2.23 M	1.37
Increase the owners and management compensation limit by 10%.	4.4 M	2.73 M	1.67 M
Increase direct care overall rate limitation by 10% (to 120%).	9.0 M	5.58 M	3.42 M
Increase capital overall rate limitation by 20% (to 100%).	Currently Undetermined		
Decrease minimum occupancy standard by 10%.	6.0 M	3.72 M	2.28 M
Remove property taxes from capital component and reimburse separately without limitation.	1.8 M	1.12 M	0.68 M
Redefines what cost reports to utilize when establishing medians.	12.5 M	7.75 M	4.75 M
Remove professional liability insurance from the administrative component and reimburse separately.	26.7 M	16.55 M	10.15 M
Hold harmless for ventilator providers.	1.6 M	0.99 M	0.61 M
Increased reimbursement for training related to dementia.	1.1 M	0.81 M	0.29 M
<u>Minimum</u> Total On-Going Costs	\$78.4 M	\$48.74 M	\$29.66 M
No phase-in for rate-setting. ** (<u>Minimum</u>)	44.6 M	27.65 M	16.95 M
*** Total First Year (Minimum)	\$123.0 M	\$76.39 M	\$46.61 M
<p>** This item represents a preliminary estimate of the initial cost associated with changing reimbursement rates initially and would occur only in the initial year.</p> <p>*** The effect of interactions between the various components of the bill have not been modeled at this time. Consequently, <u>the total cost of all provisions is a preliminary estimate</u> and may overstate the actual cost if all provisions were implemented.</p> <p>Source: Myers and Stauffer LC, 1/9/01.</p>			

Explanation of State Revenues: (Revised) This bill also establishes the Eldercare Trust Fund into which will be deposited a fee paid by all nursing facilities in the amount of \$4.65 for each patient day. This provision is to be in effect for two years, until August 1, 2003. A preliminary estimate of the total revenues that would be generated is \$70.5 M. These revenues are to represent the state match in leveraging federal

dollars through the Medicaid program resulting in a total of \$185.7 M (\$115.2 M in federal match and \$70.5 M in fee revenue). The money generated from this proposal is to be used to supplement and enhance reimbursement to nursing facilities for Medicaid services. If federal approval is not obtained for this provision, the fees are to be refunded to the nursing facilities. [The increased level of expenditures that will be generated by this bill is still being determined. Additional information will be provided when it becomes available.]

Not all nursing facilities that will be required to pay the fee described above will receive the additional Medicaid reimbursement increases provided by this bill. Certain nonprofit nursing facilities that do not participate in the Medicaid program or that have a small percentage of their beds devoted to Medicaid recipients are estimated to contribute about \$1.9 M in excess of Medicaid reimbursement generated by the bill. [This represents a preliminary estimate. Additional information will be provided when it becomes available.]

Total expenditures are shared with the federal government reimbursing about 62% of expenditures. The state share represents about 38%.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Office of Medicaid Policy and Planning (OMPP).

Local Agencies Affected:

Information Sources: Kathy Gifford, OMPP, (317) 233-4455.